

Message Text

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PAGE 01 CAIRO 13838 121557Z

46

ACTION NEA-10

INFO OCT-01 ISO-00 TRSE-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 AGRE-00 L-03 H-02 ITC-01 FEAE-00 INT-05

DODE-00 PA-01 PRS-01 /091 W
----- 032633

R 121521Z OCT 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 7805

INFO AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: USEGJC, EFIN, EAID

SUBJECT: SUBSIDIES INCREASE; IMF IS NOT PLEASED

1. MINTRADE FATTAH HAS ANNOUNCED NEW PROGRAM TO INCREASE PROFIT MARGIN FOR RETAILERS HANDLING SUBSIDIZED COMMODITIES IN TWO-TIER PRICING ARRANGEMENT (RATIONED AND NON-RATIONED): SUGAR, TEA, COOKING OIL, SOAP. MARGIN WILL GO UP TO 7 PERCENT FROM CURRENT 4 PERCENT, ACCORDING TO PRESS RELEASES, BUT THERE WILL BE NO CHANGE IN FINAL PRICE TO CONSUMER. DIFFERENCE, REPORTED AS LE 11 MILLION, WILL BE COVERED BY GOE THROUGH LOWERING PRICES CHARGED TO WHOLESALERS, THEREBY INCREASING OVERALL GOVERNMENT SUBSIDY PROGRAM.

2. COMMENT: IN ADDITION TO DESIRED EFFECT OF ENCOURAGING RETAILERS TO CARRY AND SELL RATIONED ITEMS, WHICH WERE NOT TERRIBLY ATTRACTIVE TO THE THOUSANDS OF PROFIT-ORIENTED PRIVATE SECTOR STORES MAKING UP THE OVERWHELMING MAJORITY OF

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PAGE 02 CAIRO 13838 121557Z

FOOD OUTLETS, ABOVE MOVE CAN ALSO BE CONSIDERED AS A

PRE-ELECTION PLOY DESIGNED TO SHOW THE GOVERNMENT CARES
FOR THEM.

3. ON THE OTHER HAND, REDUCTIONS IN SUBSIDIES ARE ONE OF
THE MAJOR REQUIREMENTS FOR AN IMF PROGRAM, AND ADDITIONAL
COSTS REPORTED ABOVE WILL NOT MAKE MATTERS EASIER.
IMF REP. DICKIE IS SOMEWHAT PHILOSOPHICAL, POINTING OUT
THAT TOTAL SUBSIDY WILL RUN INTO THE HUNDRES OF MILLIONS
OF POUNDS: ANOTHER FEW MILLION HARDLY MATTER. ALTHOUGH
HE DID NOT SAY SO, DICKIE IS EVIDENTLY BECOMING CONVINCED
THAT CHANCES FOR EVENTUAL MAJOR SUBSIDY REDUCTIONS ARE SLIM
AT BEST.
EILTS

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